



# THE 2023 ANNUAL BUDGET

A Captivating Story of Intrigue and Suspense

Hospitality Industry  
Insights

NOVEMBER 2022

# THE 2023 ANNUAL BUDGET

As summer tumbles into fall, hotel asset managers are challenged with reviewing and approving annual budgets. As they analyze page after page of next year's proposed budgets from their management companies with input from all facets of hotel operations — from housekeeping and F&B to maintenance and marketing — hotel and resort asset managers ought to look beyond the spreadsheets and revenue projections before concluding whether they have a best-seller on their hands.



By **Gary Isenberg**  
Vice President, Asset Management  
The Plasencia Group

In the case of a hotel budget, the primary focus is on the revenue goal and the strategy of how it will be achieved. Since all good stories have a beginning, a middle and an end, the 2023 budget “tale” must flow and connect in a realistic plot. Next year's narrative will be a thriller, so to speak, and is sure to contain several twists and turns resulting from the lingering impact of the COVID-19 pandemic mixed with a good dose of current economic woes and uncertainties.

## THE BEGINNING - The Revenue Goal

The budget storyline begins by reviewing a hotel's place within the national and local marketplace to discern whether it can meet projected revenue goals. Yet any revenue estimate needs to first be analyzed within the context of its competitive set in the local market. If a hotel had historically achieved an occupancy index of 90% when compared to competitors, it might well outpace that number next year, especially if it recently underwent a substantial renovation that is likely to attract higher-paying customers, thereby increasing both occupancy and ADR.

**Since all good stories have a beginning, a middle, and an end, the 2023 budget “tale” must flow and connect in a realistic plot.**



The asset manager further scrutinizes all dynamics impacting supply and/or demand in the market by diving deeper into the market's outlook.

- *Are any new hotel developments planned?*
- *Would the new property compete directly with the hotel's targeted guests?*
- *On the demand side, is there an anticipated up- or down-tick in convention bookings?*
- *Will a major company relocate to, or leave, the market?*
- *Does the local municipality plan any infrastructure improvements that could help or hinder the hotel's revenues?*

All are interesting storylines that are bound to affect the ending.

On the other hand, the asset manager may realize that the hotel might fall short of national and local averages and, therefore, its preliminary revenue projections. What are the possible reasons for the difference? More importantly, how can the hotel make up the difference through a well-conceived budget and marketing plan?

Reviewing all those facts helps provide the asset manager with an accurate picture of the hotel's revenue streams. Once the asset manager defines the true revenue sources in the market, he or she moves to the "middle" of the story.

## **THE MIDDLE – CapEx, Marketing & Expenses**

To meet revenue estimates, hotel management constructs the middle of the story. In other words, how it intends to meet that revenue goal. The asset manager then determines whether management has hatched a sensible plan.

All engaging stories revolve around interesting characters and subplots. It's no different with a hotel budget that weaves together a complex or creative marketing strategy, CapEx plan, and expense budget. All those elements ultimately support the revenue goal, which is the key premise on which the hotel's story is built.

The hotel's potential performance cannot be properly reviewed without considering the property's marketing plan for the coming year. If management projects a revenue increase based upon booking higher-rated corporate travelers, then marketing efforts, sales calls, and industry outreach initiatives should target that segment, not the tour and travel business, for example. Reaching out to a demand segment that doesn't further the hotel's revenue goal for the upcoming year only wastes time and money.

The same goes for CapEx. Can the hotel take advantage of a revised business climate that is set to bring in more corporate travelers if the property's physical condition isn't up to the prospective



guests' standards? If not, the CapEx budget must set aside enough dollars to fund improvements, which could mean, for example, extensive room renovations, F&B upgrades, additional meeting space, or the purchase of a corporate van. Without those capital improvements, the property won't attract that segment or even maintain the hotel's existing cash flow and customer base. But those upgrades should more than pay for themselves through the higher ADRs paid by corporate travelers.

Every hotel operates on a wide-ranging expense budget used to purchase everything from guestroom shampoo to ingredients for each day's breakfast. Therefore, every operating expense line item must be analyzed as to its probable impact on the hotel's revenue goal. Will the expense enable the hotel to reach that target, or will it drag revenues down without any measurable benefit? Perhaps the hotel can find less pricey supplies from a new vendor. The hotel's management may also want to upgrade room amenities if it wants to attract a more discerning corporate traveler. Yet more to keep the reader intrigued!

## **PLOT TWISTS & TURNS: COVID-19 Recovery & Threatening Recession**

Unique to next year's suspenseful budget story is the impact of high inflation and looming recession concerns. It has been over 40 years, dating back to 1981, since the nation has experienced inflation matching current levels. The annual inflation rate for the United States is a whopping 8.2% for the 12 months ended September 2022, according to U.S. Labor Department data published October 13, 2022. Hotels are thought to be somewhat insulated from inflation due to their ability to change pricing daily and even hourly. However, depending on consumer confidence, demand could also suffer as consumers move more of their take-home pay from discretionary expenditures to meet their cost-of-living needs. This phenomenon also applies to corporate travel, as companies may opt reduce travel budgets by shifting their capital to other high need areas as inflation continues and recession fears increase. The corporate transient traveler has been slow to return from the pandemic era and the recovery of that segment may very well be further delayed due to inflation and recessionary concerns.

Inflation coupled with supply chain concerns is invariably impacting hotel and resort operating expenses as the cost of goods and supplies rises. When combined with rising wages due to low unemployment, it is no wonder that shrinking profit margins should be expected.

After discussions with a number of management companies, asset managers and owners, it appears the consensus for the 2023 budget story is to anticipate a period of inflation, but not a full-blown recession. In other words, owners, operators, and asset managers should expect increases in costs next year due to inflation, the need to raise wages as necessary, and contemplate a slowing of the recovery of corporate travel. Operating margins can be expected to be lower than historical levels, but budgets are also not likely to face a complete economic meltdown. Given the lack of clarity with the economy at the moment, next year's budgets can always be modified and updated at some point in 2023 if a deep recession manifests.



## THE END – An Actionable Business Plan

As the asset manager nears the end of the hotel’s story, it is likely some “holes” in the plot may be uncovered. For example, revenue projections might fail to align with the operator’s proposed marketing plan or budget projections. In those instances, the asset manager must seek opportunities to adjust the budget; perhaps expenses can be reduced, or CapEx increased. It may then be prudent to actually request a “rewrite” of the budget before finalizing.

Let’s not forget ownership’s perspective in the budget-making storyline. Since the asset manager should be acting as the owner’s representative, he or she determines whether the budget aligns with ownership’s goals. An owner who intends to sell the asset in the near term is ill-served by massive budget expenditures in the coming year that aren’t going to recoup the owner’s investment for another ten years.

The asset manager’s job then, is to ensure all components of the proposed annual budget fit together in a seamless and integrated plot that, when properly written, makes a strong case for the hotel’s projected revenue goal. No one item can stand independent of another. All elements of the financial plan and marketing story must be cleverly woven if the property is to hit its revenue target.

Lastly, a hotel budget serves as a comprehensive business plan for all actionable items needed to meet the financial projections of the hotel. Every financial projection derives from a logical and realistic assessment of the overall market, property condition, and aspirational revenue goals. The asset manager’s task is to evaluate and justify each budget component, so the hotel operator writes a successful story. The noise of inflation or recessionary fears need not impede or overwhelm the logical thought process of the budget story. Distractions such as inflation and recession concerns need to be considered but cannot take over the plot. Happy Budget Season!

For more valuable Hospitality Industry news and market analysis from The Plasencia Group, visit us online and opt-in to our communications list at [tpghotels.com/company-news](https://tpghotels.com/company-news)

---

### About The Plasencia Group

In 1993, The Plasencia Group was formed to provide hotel and resort owners investment advisory services at a personal level. Twenty-nine years and hundreds of engagements later, we still have the privilege of making our clients successful with the passion, access, and certainty they’ve come to expect. Our firm offers investment sales, asset management, development and renovation management, debt and equity sourcing, and advisory services to hotel and resort owners throughout North America.

Contact us today if our experienced advisory team can assist you in evaluating your current portfolio and strategizing for the weeks and months ahead. We look forward to the opportunity to serve you.

**(813) 932-1234**  
**info@tpghotels.com**  
**tpghotels.com**

